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Supreme Court, U. S.
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IN THE

Supreme Court of the United States

October Term, 1946

No. 1376

STOKES & SMITH COMPANY,
Petitioner,

vs.

TRANSPARENT-WRAP MACHINE CORPORATION,
Respondent.

PETITION OF STOKES & SMITH COMPANY FOR A WRIT OF CERTIORARI TO THE CIRCUIT COURT OF APPEALS FOR THE SECOND CIRCUIT, AND BRIEF IN SUPPORT THEREOF.

SAMUEL E. DARBY, JR.,
Counsel for Petitioner.

VIRGIL E. WOODCOCK,
Of Counsel.

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PETITION OF STOKES & SMITH COMPANY FOR A WRIT OF CERTIORARI TO THE CIRCUIT COURT OF APPEALS FOR THE SECOND CIRCUIT, AND BRIEF IN SUPPORT THEREOF.

To the Honorable, the Chief Justice and Associate Justices of the Supreme Court of the United States:

Your petitioner, STOKES & SMITH COMPANY, respectfully prays for a writ of certiorari to the Circuit Court of Appeals for the Second Circuit to review the judgment of that Court entered on the 18th day of April 1947.

A transcript of the record in the case, including the proceedings in the said Circuit Court of Appeals, is furnished herewith in accordance with the rules of this Court.

Short Statement of Matter Involved.

This case is here for the second time, now on petition for writ of certiorari to review the judgment of the Second Circuit Court of Appeals rendered pursuant to remand from this Court (*Transparent-Wrap Machine Corporation* v. *Stokes & Smith Company*, ____ U. S. ____, 91 L. Ed. 451; 67 S. Ct. 62; 72 U. S. P. Q. 148, decided Feb. 3, 1947). The material facts are as follows:

1. Respondent is the owner of three patents issued to an inventor named Zwoyer for what is termed a "Transwrap Packaging Machine".* Respondent represented to this Court at the prior argument of this cause—and it is the fact—that by these Zwoyer patents it had established an entirely new industry in packaging machinery—it was a separate, independent and distinctive part of the packaging machinery art in which respondent alone, (and subsequently petitioner), was engaged.

2. On June 23, 1937, respondent granted petitioner a written license under the Zwoyer patents on the condition that petitioner (licensee) would assign to respondent (licensor) the patent rights to all inventions that licensee might make during the term of the license agreement which were

> "applicable to the Transwrap Packaging Machine and suitable for use in connection therewith and applicable to the making and closing of the package but not to the filling nor to the contents of the package".†

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* 1,986,422 granted January 1, 1935, and its divisional patents 2,037,555 and 2,047,243, granted April 14, 1936, and July 14, 1936, respectively (R. 243-267).

† Paragraph 12 of the License Agreement, R. 100; see also footnote 1 in this Court's Opinion.

3. Petitioner attacked the legality and enforceability of this provision in the license agreement by a declaratory judgment suit instituted in the Southern District of New York, and for relief prayed, *inter alia* (second prayer for relief, R. 5)

> "for a declaratory judgment of invalidity and/or non-enforceability of said paragraphs 11 and 12 of the said agreement of June 23, 1937 because of defendant's improper use of its patents in contravention of public policy".

4. A trial was had beginning November 8, 1945, and on December 17, the District Court filed its opinion, findings and conclusions (68 U. S. P. Q. 28; R. 295-302), conclusion No. 1 being (R. 296):

> "Paragraphs 11 and 12 of the contract are not invalid or unenforceable as contrary to *law* or to public policy and defendant is entitled to judgment dismissing the complaint". (Emphasis added.)

5. Judgment was entered on December 26, 1945 (R. 303).

6. Petitioner appealed to the Second Circuit Court of Appeals, presenting, among others, the question (question 1, brief on appeal, p. 6):

> "May the owner of a patent validly and enforceably impose as a condition to a license thereunder that the licensee shall assign to the patent owner the patent rights to all inventions thereafter made by licensee relating to or usable in connection with the subject matter of the licensed patent?"

7. The Second Circuit Court of Appeals, in an opinion by Judge LEARNED HAND (concurred in by Judge FRANK, Judge SWAN dissenting) reversed the District Court, and

found the assignment provision of the license agreement to be illegal *per se*, and for that reason expressly refrained from deciding a question, obviously of anti-trust law, it recognized was posed. The Court stated (156 F. (2d), at p. 202; R. 321):

> "Whether centering a double monopoly in the defendant's hands, instead of leaving the two parties to use their products competitively, is an *unlawful* feature of the contract, we need not, however, decide for the following reasons". (Emphasis added.)

8. A writ of certiorari was granted by this Court on respondent's petition, and the cause was briefed and argued. On February 3, 1947, this Court reversed the Court of Appeals in an opinion written by Mr. Justice DOUGLAS, and concurred in by Chief Justice VINSON, and Justices REED, FRANKFURTER and JACKSON, with Justices BLACK, MURPHY, RUTLEDGE and BURTON dissenting. The majority opinion held that the provision of the license agreement to assign inventions *in futuro* was not *per se* illegal and unenforceable in view of the assignment statute.* This Court stated (Opinion, p. 10):

> "Congress, however, has made no specific prohibition against conditioning a patent license on the assignment by the licensee of improvement patents. *But that does not mean that the practice we have here has immunity under the anti-trust laws.* Indeed, the recent case of *Hartford-Empire Company* v. *United States*, 323 U. S. 386, 324 U. S. 570, dramatically illustrates how the use of a condition or covenant in a patent license that the licensee will assign improvement patents may give rise to violations of the anti-trust laws.

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* This conclusion was arrived at despite the fact that the assignment statute is applicable *only* to assignments of *issued patents*, and does not apply to the assignment of an invention *not yet patented* (R. S. 4898; see 35 U. S. C. A. 47, at p. 6).

> *The District Court found no violation of the anti-trust laws in the present case. The Circuit Court of Appeals did not reach that question.* Hence it, as well as any other questions which may have been preserved, are open on our remand of the cause to the Circuit Court of Appeals. (Emphasis added.)
>
> We only hold that the inclusion in the license of the condition requiring the licensee to assign improvement patents is not *per se* illegal and unenforceable."

9. On remand, the Court of Appeals issued an order on March 15, 1947, consisting in its entirety of the following:

> "This case is set for argument on March 28, 1947 at 10:30 A.M. Counsel will exchange briefs on or before March 24."

10. At the times set by the Court counsel for petitioner and respondent exchanged briefs, and appeared in Court for argument of the cause. The Court declined to hear argument, and announced that it would make its decision on the briefs submitted. The Court also declined to remand the cause to the District Court to receive additional evidence specifically directed to the anti-trust law question. The Court of Appeals (comprised of the same members of the Court, namely Judges LEARNED HAND, SWAN and FRANK) in another case previously had recorded its recognition that it was possessed of the power to remand for that purpose when there was present that public interest, such as possible violation of the anti-trust laws, which warranted such a course (see *Nachman Spring-Filled Corporation* v. *Kay Mfg. Co.*, 139 F. (2d) 781, 787).

11. In addition to the question of whether or not respondent's licensing practice constituted a violation of the anti-trust laws, there was presented to the Court of Appeals for decision a patent question which had been raised

by petitioner's appeal to that Court, but which had not been passed upon because it was unnecessary to do so in view of the Court's reversal on other grounds. This patent question was whether or not the eleven patents of petitioner ordered by the District Court to be assigned were expressly exempted from the assignment provision of the license agreement by its language.

12. On April 18, 1947, in an opinion written by Judge Learned Hand, the Court of Appeals affirmed the judgment of the District Court, basing its opinion on the anti-trust law question upon the conclusion that *such issue was not before the Court* either by pleadings, evidence or argument, and that, considering only the license agreement, no violation of the anti-trust laws appears. The Court also decided adversely to petitioner on the patent question, basing its decision upon the entirely novel and startling basis that in determining what constituted the inventions of petitioner's patents the *claims* of patents "are wholly irrelevant", and that the question should be decided *"without regard to the claims"* (R. 348).

13. Because the case discloses so obvious a violation of the anti-trust laws, and one which, if not condemned immediately, will have such vicious and far reaching effect upon the public interest by inducing similar, self perpetuating patent pooling arrangements in the future, this petition is filed asking this Court to review the matter.

The Questions Presented.

1. Is it a violation of the anti-trust laws to use the licensing of patents, which are asserted to dominate completely a "part of the trade or commerce among the several States, or with foreign nations", as a means to create

and perpetuate a pool of all subsequent patents relevant to the particular art originating in the only manufacturers comprising the art, by compulsorily vesting in the patent owner the title to all such subsequent patents and including them in the license, whereby a complete and self-perpetuating monopoly in such trade or commerce is effected.

2. Are the eleven patents of petitioner here involved expressly exempted from the assignment provision of the license agreement by its language?

Reasons Relied Upon for the Grant of a Writ of Certiorari.

The discretionary power of this Court is invoked upon the following grounds:

1. Because of the great public importance of the question of utilization of patents in violation of the anti-trust laws.

2. Because the present case involves a particularly vicious type of self-perpetuating patent pooling to effect an absolute monopoly in violation of the anti-trust laws, which heretofore has not been considered by this Court, but which should be considered and should be decisively condemned.

Wherefore, your petitioner respectfully prays that a writ of certiorari issue out of and under the seal of this Court directed to the United States Circuit Court of Appeals for the Second Judicial Circuit, commanding said Court to certify and send to this Court, on a date to be designated, a full transcript of the record and all proceedings of the Court of Appeals had in this cause, to the end that this cause may be reviewed and determined by this Court as to the questions herein presented, and that the

judgment of the Court of Appeals be reversed, and that petitioner may be granted such other and further relief as may seem proper.

Respectfully submitted,

STOKES & SMITH COMPANY

by SAMUEL E. DARBY, JR.,
its Counsel.

VIRGIL E. WOODCOCK,
Of Counsel.

Dated: New York, N. Y.,
May 15, 1947.

BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI.

Opinions of the Courts Below.

The opinion of the District Court is reported at 68 U. S. P. Q. 28, and will be found in the record beginning at page 295.

The first opinion of the Court of Appeals is reported in 156 F. (2d) 198, and will be found in the record beginning at page 312.

The second decision of the Court of Appeals is reported in 73 U. S. P. Q. 200, and will be found in the record beginning at page 344.

Jurisdiction.

The grounds for jurisdiction are:

1. The date of the judgment to be reviewed is April 18, 1947.

2. The statute under which jurisdiction is invoked is 240(a) of the Judicial Code, 28 U. S. C. 347, as amended by the Act of February 13, 1925.

3. Cases believed to sustain the jurisdiction are:

Transparent-Wrap Machine Corporation v. *Stokes & Smith Company*, 91 L. Ed. 451; 67 S. Ct. 62;

Mercoid Corporation v. *Mid-Continent Company*, 320 U. S. 661.

Specification of Errors.

The errors which petitioner will urge, if the petition for writ of certiorari is granted, are that the Circuit Court of Appeals for the Second Circuit erred

1. in affirming the judgment of the District Court;
2. in holding, in effect, that the question of whether or not respondent has violated the anti-trust laws was not before the Court for decision;
3. in refusing to remand the cause to receive additional evidence on the anti-trust law question;
4. in holding that respondent has not violated the anti-trust laws;
5. in failing to hold that the inventions patented by petitioner, as defined by the claims of the patents, are expressly exempted from its provisions by the language of the license agreement.

ARGUMENT.

I.

(1) Notwithstanding the fact that this Court expressly recognized that the question of anti-trust law violation was involved in this case, and noted that although the District Court had passed thereon and that the Circuit Court of Appeals "did not reach that question", the Court of Appeals has now held, in effect, that the question is not in the case at all, apparently because the anti-trust laws were not mentioned by name.

It is impossible to reconcile this conclusion with the question the Court of Appeals expressly recognized was

presented to it for decision on the original appeal to that Court. The Court stated (156 F. (2d) at p. 202; R. 321):

> "Whether centering a double monopoly in the defendant's hands, instead of leaving the two parties to use their patents competitively, is an unlawful feature of the contract, we need not, however, decide, for the following reasons."

Again, and having in mind the provisions of Section 3 of the Clayton Act,* the Court of Appeals also stated (156 F. (2d) at p. 202; R. 322):

> "We do not see what difference it makes under the decisions we have cited whether the plaintiff is compelled to buy all improvements from the defendant by means of a transfer of the plaintiff's patents, or by means of a contract; indeed, the compulsion in the first instance is more absolute than in the second."

Moreover, the cases relied upon by the Court of Appeals in its first decision included *Ethyl Gasoline* v. *United States*, 309 U. S. 436—*an anti-trust law case*. Additionally, the Court relied upon *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488 and *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661;† and this Court, in *Hartford Empire Co.* v. *United States*, 323 U. S. 386, at page 415, tersely stated that those cases

> "apply the doctrine that, so long as the patent owner is using his patent *in violation of the anti-trust laws*, he cannot restrain infringement of it by others."

It would seem to be inescapable, therefore, that the present case quite obviously involves anti-trust law viola-

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* See appendix, p. 22.

† *B. B. Chemical Co.* v. *Ellis*, 314 U. S. 495 was also called to the attention of the Court, but no reference thereto was made in the Court's opinion.

tion, and that the Court of Appeals has committed such error in concluding that such issue is not here present as to require review and reversal by this Court.

It was implicit in this Court's remanding decision that the subject of violation of the anti-trust laws should be explored fully, and that such additional evidence as might be available should be permitted to be made of record by remand by the Court of Appeals to the District Court should that course be necessary. Not only was that course implied by this Court, but recognition of the public interest, and brief consideration of the pertinent authorities, show the necessity for such procedure.

The public interest in the improper use of patents to violate the anti-trust laws has been so frequently pointed out by this Court in recent years as not to require argument to establish it. So great is the public interest and so alive are the Courts to the necessity of protecting the public from abuse of patent rights, that now it is universally recognized that any such use of patents by their owner should be considered by a Court whenever it is called to the Court's attention, at any stage of a litigation, and regardless of lack of pleading thereof, laches and all other technical considerations (Cf. *Frank Adam Electric Co.* v. *Westinghouse,* 146 F. (2d) 165, C. C. A. 8th; *National Lock Washer Co.* v. *George K. Garrett Co.,* 137 F. (2d) 255, C. C. A. 3). Indeed, the Court of Appeals for the Second Circuit, composed of the same members of the Court who considered the present case (Judges Learned Hand, Swan and Frank) in *Nachman Spring-Filled Corp.* v. *Kay Mfg. Co.,* 139 F. (2d) 781, raised the question of whether or not a patent agreement before the Court violated the anti-trust laws—a question apparently not in the case up to that time—and remanded the case with directions "to hear evidence" on the matter.

It is submitted to be obvious, therefore, that if, as appears to be the case, the Court of Appeals was of the belief that the record before it was inadequate or incomplete on the question of anti-trust law violation which this Court had directed be considered on remand, it was the *duty* of the Court to have made available to it all evidence bearing on the subject. Its refusal to do so requires consideration of the case by this Court, and a reversal of the judgment of the Court of Appeals.

(2) Even if consideration of the question of anti-trust law violation is limited to the record in its present condition, it is quite obvious that violation is shown, thereby again necessitating review by this Court and reversal of the judgment of the Court of Appeals which held otherwise.

Petitioner confidently asserts that on the undisputed facts and the contractual provisions of Paragraphs 11 and 12 of the license agreement, the enforcement of those provisions constitutes a violation of Sections 1 and 2 of the Sherman Act, as well as of Section 3 of the Clayton Act, all as will be seen upon brief consideration.*

The Sherman Act.

Respondent represented to the Court of Appeals below, as well as to this Court—and it is the fact—that by its Zwoyer patents it had established an entirely new industry in packaging machine—it was a separate, independent and distinctive *part* of the packaging machinery art. It repeatedly asserted that it, alone, was engaged in the manufacture of packaging machinery of the type represented by the Zwoyer patents. Indeed, respondent represented to the Court of Appeals, so persuasively as to induce the

* See the appendix hereto for the pertinent language of the Statutes.

minority opinion of that Court, that it was engaged in a "business" in which it had *no* competition—not even from plaintiff which was a large manufacturer of packaging machines—and that it was this "business" that respondent sold to petitioner. Upon such sale of this "business" to petitioner it necessarily follows that petitioner was placed in the shoes of respondent, in every respect except that the title to respondent's patents, which presumably created a legal monopoly to the business, remained in respondent. Additionally—and this is vital to this aspect of the case—petitioner, by the license, was obligated to assign to respondent the legal patent monopoly to all inventions that *petitioner* thereafter might make or acquire.

Thus there was centered in respondent's hands what the majority of the Court of Appeals, in its first opinion, referred to as a self-perpetuating "double monopoly" (R. 319)—its own monopoly and petitioner's monopolies—thereby *effecting* and *perpetuating* a *complete* monopoly with respect to the "business" involved.

It is an established fact that the "business" consists of manufacture and sale in interstate and foreign commerce.

It is inescapable, therefore, that respondent has not only *attempted* to monopolize a *part* of the industry as prohibited by the Sherman Act, but *has effected* a *complete* monopoly of the "trade or commerce among the several States or with foreign nations" in the "business" in which respondent itself has represented to this Court it and petitioner alone were engaged. Thus, Section 2 of the Sherman Act is violated; and the license agreement, which has been employed by respondent as an aid in effecting and perpetuating its monopoly, is violative of Section 1 of the Sherman Act as well.

Additionally, the license agreement violates Section 1 of the Sherman Act because it has effected a "double mo-

nopoly", with the inevitable consequence of restraining trade and commerce (see *United Shoe Machinery Co.* v. *LaChapelle*, 210 Mass. 467, 99 N. E. 289, cited by the majority opinion of this Court in the present case). The mere fact that in the present case it is merely a "double" monopoly rather than a greater multiple, in no way avoids the prohibition of the Act. The determining factor, as in the *United Shoe Machinery* case, *supra*, is the extent of monopolization. In that case the extent was in the nature of 95% of the industry, necessitating similar contractual relations between the Shoe Machinery Company and a large number of parties—inherently a difficult objective to attain. Here, the monopoly is 100%; and such a *complete* monopoly is made possible because only *two* concerns are in the "business", thereby requiring but a single contract between them. It is hardly necessary to point out that where monopoly is the vice, it is neither less a monopoly nor less a vice if the entire industry comprises only *two* concerns rather than a larger number.

The same conclusion inevitably is arrived at with respect to the foreign market. Footnote 1 of the majority decision of this Court appears to have accepted the Court of Appeals' ruling where it said (R. 314):

> "Article XI is obscure. But we read the second sentence as meaning that the plaintiff promised to give the defendant an exclusive license in all territories not covered by the contract, under any patents upon improvements to the Zwoyer machine, so far as these should relate to making and closing the package."*

This ruling was in accord with respondent's own contention (R. 10) that paragraph 11 gave it the right to apply

* The Court of Appeals used the term "Article XI" to refer to paragraph 11 of the agreement (R. 99).

for and obtain patents and license the use thereof in countries outside of the several territories covered by the license agreement. The division of the world market, the reservation to the defendant of *the entire world* except the United States, Canada, and Mexico, and the contractual provision of an exclusive right in the defendant-licensor, all represent violations of the anti-trust laws. Paragraph 11 does not depend upon previously existing patent rights in the several countries in which respondent presumes to have exclusive rights, nor does it require patents in such countries on petitioner's inventions. It purports, by contract, to eliminate competition in the markets of the world. The language of paragraph 11 is that the licensor shall have the exclusive right to use and license the use of "any improvement or addition to *Transwrap Packaging Machines*", and it *separately* names "*any new inventions connected with such machines*".

This provision of the agreement violates the anti-trust laws in two respects: first, as to its contractual exclusion of petitioner from the market in countries in which respondent has never had a patent monopoly; and, second, the acquirement of all of petitioner's patents in all countries of the world. Such a contract plainly is in restraint of trade or commerce with foreign nations.

This exact cartel practice—the division of world markets without regard to patent rights—during and before the last war, publicly has received the strongest condemnation, and is so manifestly in violation of the anti-trust laws that now it is generally recognized as such. This is evidenced by the works of writers on the subject as well as by the numerous consent judgments in Government cases (see Wood, Patents and Antitrust Law (1941), p. 109. This authority was cited with approval in the majority opinion of this Court in this case in Footnote No. 4).

It is submitted, therefore, that paragraphs 11 and 12 of the license agreement are violative of the Sherman anti-trust law on the face of the agreement.

The Clayton Act.

Paragraphs 11 and 12 are also violative of Section 3 of the Clayton Act.* That section prohibits tying provisions in patent license agreements (*International Business Machines Corp.* v. *United States*, 298 U. S. 131; *United Shoe Machinery Co.* v. *United States*, 258 U. S. 451). More particularly, that section specifically prohibits the tie-in of a purchasing requirement in the sale of *patented* as well as of unpatented articles.

As is made clear by the majority opinion of the Court of Appeals in its first decision (R. 320), the Court previously concluded that the assignment compelling provision of the license agreement here involved was violative of Section 3 of the Clayton Act, although the Court did not say so in so many words. The Court said (R. 322):

> "We do not see what difference it makes, under the decisions we have cited, whether the plaintiff is compelled to buy all improvements from the defendant by means of a transfer of plaintiff's patents, or by means of a contract; indeed, the compulsion in the first instance is more absolute than in the second."

It is obvious that the inevitable effect of the enforcement of paragraph 12 of the license agreement not only will be to *substantially lessen* competition, but, in fact, will *eliminate* competition; and not only will it *tend* to create a monopoly, but, in fact, actually will create, maintain and

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* See Appendix.

perpetuate a *complete and absolute* monopoly. Thus, the test of applicability of the Clayton Act not only has been met in the present case, but the *ultimate* of conditions condemned by the Act here are present.

From the foregoing it will be seen that the license agreement here before the Court, necessarily, in the light of the established and undisputed facts of the case, constitutes a vicious and far reaching violation of the anti-trust laws; and that in protection of the public interest the cause should be reviewed by this Court to correct the error of the Court of Appeals below in failing to recognize the character and extent of such violation.

II.

The basis of the decision of the Court of Appeals below on the patent question involved (*i. e.* that the *claims* of a patent are *wholly irrelevant* to the determination of the "invention" thereof) is so startling, and the implications thereof are of such far reaching character, that it was deemed desirable to present this question as a secondary basis for the present petition should the Court desire to include it for consideration in the event the petition for writ of certiorari is granted on the more publicly important question of anti-trust law violation.

It might be noted that this Court, in its opinion, was of the belief that petitioner's patents required to be assigned are "improvements" on the Transwrap Packaging Machine which the Zwoyer patents purport to cover. As a matter of fact, however, that is not so. To the contrary, petitioner's patents, without exception, are directed to various inventions which, by no stretch of the imagination, are included in or would be covered or dominated by the claims of the Zwoyer patents; they are not "improvements" in the legal sense.

To illustrate, petitioner's patented inventions would be just as applicable to and useful in connection with other prior art packaging machines as they would be to the Transwrap Packaging Machine; indeed they could be used *competitively* with the Transwrap Packaging Machine. One of the very obnoxious and illegal vices of respondent's licensing practice is to completely and for all time—*long after the expiration of the Zwoyer patents*—eliminate the competition with which otherwise respondent would be faced, by perpetually effecting a pooling in itself of *all* patents relevant to the packaging machinery business.

Furthermore, it is at once apparent that if it is legal *per se,* and not violative of the anti-trust laws, to require as a condition to a license that the licensee assign to the patent owner the patent rights to all "improvement" inventions that the licensee might make *in futuro,* then, and for the same reasons, it would be equally as legal and non-violative of the anti-trust laws to exact such a condition of a licensee *regardless* of the art to which the patent rights of the licensee might be directed. Thus, by means of a patent of dubious validity or scope, it would become legally possible to build a monopolistic empire, of constantly expanding magnitude and extended life, which ultimately would dominate most, if not all, of the industrial arts. The time that violation of the anti-trust laws on such a vast scale should be halted is, as here, at the inception of the practice and not after the public has been subjected to the inconvenience, hardship and inevitable expense incident to the actual establishment of such a monopoly.

It is because of these considerations that it is believed that in the event the present petition is granted this Court will desire to consider the patent question presented by this case, because it clearly will show, as above indicated, the magnitude and extent of the vice of respondent's licensing practice.

Conclusion.

It is respectfully submitted that the public importance of the use of patent rights to subvert the principles underlying the anti-trust laws necessitates a review by this Court of the present case at its present status. As the case now stands, this Court has ruled that it is legal *per se* for one owning patents to grant a license thereunder on the condition that the licensee will assign to the patent owner the patent rights to all inventions that might be made *in futuro* by the licensee. In its majority opinion so holding, this Court *expressly* recognized that such practice probably would violate the anti-trust laws, citing the case of *Hartford-Empire Co.* v. *United States,* 323 U. S. 386, as a fitting illustration. The present case is similar to the *Hartford-Empire* case in the vicious and far reaching consequences of the patent licensing practice, and differs therefrom only in the fact that the "part of the trade or commerce" here involved is smaller and the number of participants is fewer. However, the pooling of patents is the same; and here the monopoly is more absolute—100%—and *it is self perpetuating* in that petitioner's patent rights, as they are created, are automatically included in the license which continues during the life of the last patent to issue unless the licensee terminates the agreement and is forced out of business and rendered competitively impotent—not by the original patents of the patent owner, but rather, and as stated in the first opinion of the Court of Appeals (R. 321), as a consequence of *licensee's* own inventive ingenuity.

The sanction of this Court, implied by its prior decision in this case, inevitably will result in the inclusion, in patent licenses hereafter granted, of a condition compulsorily requiring the licensee to assign to the patent owner-licensor

all patent rights of which the licensee might become possessed. And in the future this practice inevitably will extend to every art and industry. It is believed to be too self-evident to require more than its mere statement that such practice materially and deleteriously affects the public interest to such an extent that it should not be sanctioned unless and until this Court has reviewed the present cause in which the practice originated, and has carefully considered the potentialities, legalities, and consequences thereof in the light of the anti-trust laws.

Respectfully submitted,

SAMUEL E. DARBY, JR.,
Counsel for Petitioner.

VIRGIL E. WOODCOCK,
Of Counsel.

APPENDIX.

Section 1 of the Sherman Act (15 U. S. C. 1)

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States or with foreign nations, is hereby declared to be illegal. • • •

Section 2 of the Sherman Act (15 U. S. C. 2)

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor, • • •

Section 3 of the Clayton Act (15 U. S. C. 14)

That it shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies or other commodities, whether patented or unpatented, for use, consumption or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, or fix a price charged therefor, or discount from, or rebate upon, such price, on the condition, agreement or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce.